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Trends in the Electronic Exchange of Value

The Prairie State's National Challenge

Illinois' new law exempting merchants from card interchange on sales tax and tips poses a whole host of vexing questions for processors nationwide.

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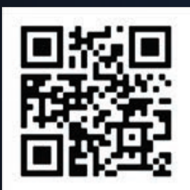

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the gimlet eye

THE NEXT STAGE FOR REAL TIME

ARE YOU READY for real time? Ready or not, here it comes—in more than one guise, and in far more than one application.

When FedNow debuted commercially 14 months ago, the story mainly focused on the general concept of immediate money transfers. But since then, the payments industry has been busy working on service-ready applications.

You may have noticed one of the most talked-about of these applications: request for payment (RFP). This enables a party to send a "bill" digitally to another party to trigger an immediate digital payment in return. Now, with more than 900 financial institutions participating in FedNow, that concept is quickly taking shape, according to Fed officials.

In offering RFP, FedNow has joined The Clearing House's RTP network, which has enabled the service since it began operations in 2017. Now, TCH, owned by 20 of the world's biggest commercial banks, is moving to expand RFP dramatically this year.

So, RFP is "a standard, one that many different payment rails are coalescing around," said Blake McDaniel, an assistant vice president at the Federal Reserve who spoke as part of a panel discussion last month at the MPC24 payments conference in Atlanta.

That "coalescing" is unfolding rapidly. Mark Majeske, a senior vice president at Alacriti Inc., a money-movement fintech, noted his company had already seen "about 80,000 transactions" for RFP in the previous few months. "We're looking at another year to year-and-a-half" for a breakout, he noted, at which point, the service "is going to be huge."

Why this optimism? Banks that have joined FedNow are getting onboard RFP as an essential application, Majeske said. "There are people putting in turnkey systems" that "can automate the entire transaction flow," he told the audience. This effort, he said, could help commercialize RFP and "lower the cost of the transaction."

What markets are ripe for RFP? Well, there's real estate. Title companies may welcome the service as a way to combat fraud, Majeske said. The title company sends an RFP, and the recipient sends the payment, which is received "in milliseconds," he added. Plus, this can work seven days a week.

The Fed's McDaniel said earned-wage access is another ripe market. This technology allows employees to collect their earnings at times when they need the cash sooner than payday. "We're working with EWA providers," he said.

Yet another likely application, Majeske noted, lies in utility payments, where consumers could avert a shut-off after receiving an RFP during a phone conversation with the utility company. "The person pays it on the phone," Majeske said.

"RFP seems to be pretty solid," he concluded. Are you solid behind it?

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PROCESSING FEES ARE THE COST MERCHANTS SHOULD FIGHT, SOME SAY

Merchants' disdain for interchange is well documented, but one aspect of card-acceptance costs that gets drowned out by the outcry over interchange is that rising processing fees are hitting merchants harder than interchange hikes, according to some observers.

Processors' rate hikes have been running between 0.25% and 1.5% in recent years, whereas a few years ago they were typically a few basis points, says Eric Cohen, chief executive and founder of Merchant Advocate, a Colts Neck, New Jersey-based consultancy that works to help merchants reduce their card-processing costs.

The cost to merchants from these hikes can be substantial. Cohen cites the example of a non-profit organization his company worked with that underwent five rate increases from its processor in a two-year span. Those increases ended up boosting the non-profit's processing costs by $300,000 annually, Cohen says.

"There has been a lot of merchant push-back against interchange rate increases, especially among larger merchants, but in recent years we've seen processor-fee increases that are higher than any interchange hike," says Cohen.

Compounding the problem is that processors don't always provide justifications for their increases, such as inflation or the costs of new technology. "Processors are profit-driven and they raise rates because they can," Cohen adds.

One reason many small and mid-size merchants don't complain about increasing processing costs, Cohen says, is that statements tend to be complicated and confusing, making it hard for sellers without dedicated personnel to understand the fees they are being charged. In addition, interchange is baked into merchant-processing fees, which can obscure the cost of processing.

"If merchants, especially mom-and-pop merchants, understand how to read their statement and optimize their merchant account, they would see the [financial] impact of interchange hikes is not as great [as processing fees]," Cohen says. "There are a lot of hidden fees [charged by processors]."

Cohen's argument comes at a time when some processors have come under fire from merchants for charging so-called junk fees, which can include PCI-compliance fees, as well as batch-processing, customer service, and statement fees. PCI refers to the Payment Card Industry data-

security standard, which is meant to combat fraud.

Shift4 Payments Inc. recently said it will pay restaurants a dollar for every online order they receive across the first three months that they use Shift4's SkyTab point-of-sale system. The move was a response to junk fees charged by competitors, such as additional charges for accepting online orders. Toast Inc., a Shift4 rival, began levying a fee on restaurants for processing online orders over $10. Toast backed off on the fee in the face of adverse reactions from clients.

But not all proponents for merchants in their battle against card-acceptance costs accept Cohen's claims that rising processing fees can be more costly than interchange hikes.

"Card-acceptance costs can be abusive in some cases, and complicated for merchants to understand, but that's not the same systematic failure that we see with interchange," argues Doug Kantor, an executive committee member for the Merchants Payments Coalition and general counsel for the National Association of Convenience Stores.

Merchants can switch to a lower-cost provider if processing fees become too high, but are stuck with the interchange costs set by the card networks, Kantor adds.

The Electronic Payments Coalition, which represents financial institutions on interchange matters, declined to comment on processing fees.

—Peter Lucas

FISERV RACKS UP GROWTH VIA STRENGTH IN MERCHANT SERVICES

Fiserv Inc.'s top brass this summer celebrated a second quarter in which adjusted revenue jumped 7% and adjusted earnings per share grew 18%, but it was new programs and alliances—including one with Apple Inc.—that took center stage as the company in July presented its second-quarter 2024 results.

Cash Flow Central, a banking alliance Fiserv announced in November to offer financial institutions a package of digital-payments and merchant-acquiring capabilities, was expected to go live in the third quarter, and "the pipeline is full," Frank Bisignano, Fiserv's chief executive, told equity analysts on a call to discuss the company's results.

The new program, which Bisignano said "takes a cost center [at banks] and turns it into a revenue generator," is billed as a way for banks to offer small merchants simplified processing and point-of-sale technology for a wide range of payments flows. The program, which has attracted half a dozen institutions so far, will include Clover, Fiserv's fast-growing point-of-sale technology. "Banks love the bundle," Bisignano said. "This will be a long-term growth engine."

Overall, financial institutions are turning to such offerings—including merchant services—in increasing numbers, according to Fiserv. "Banks are adding merchant acquiring as a way to grow," Bisignano said, in a trend that follows years after many financial institutions exited the business, leaving it to third-party providers.

FISERV'S STEADY CLIMB

(Adjusted revenue, in millions)

Source: Fiserv

With Apple, Fiserv has added a feature that allows cardholders to carry installment loans on their credit cards when they use Apple Pay at checkout. This lets Fiserv tap into Apple Pay but also "allows our issuing partners to compete with BNPL," Bisignano said, referring to popular buy now, pay later credit programs. The program comes after Apple in June shut down its fledgling Apple Pay Later program, which it had launched only a year earlier as its entry into the BNPL market.

The new program "allows our issuing partners to compete with BNPL. We see multiple opportunities ahead," Bisignano told analysts on the call.

But Fiserv is also expanding in international markets, and doing so even beyond its well-known moves in South America. The company will have pilots going in Brazil and Mexico next year, and is also looking to grow active in Australia, where a pilot was expected to start later in the summer, according to Bisginano. "We won't get a ton of growth out of [international activity] in 2024. We'll see it in 2025," he noted.

For FedNow, the Federal Reserve's real-time payments network, Fiserv signed 32 banks in the quarter, bringing its total to nearly 300 so far, according to chief financial officer Bob Hau, who joined Bisignano on the earnings call. That tally indicates Fiserv has accounted for about one-third of the 900 banks that have signed up for FedNow (see the next story for more on this), which launched a year ago.

For the quarter, Fiserv recorded $4.8 billion in adjusted revenue, good for that 7% year-over-year increase. Organic growth—the increase excluding acquisitions—was 18%. The company's Merchant Solutions unit accounted for half the quarter's revenue, growing 7%. The unit's Clover point-of-sale technology racked up $313 billion in annualized volume, representing 17% growth from a year ago.

—John Stewart

FEDNOW CLOSES IN ON 1,000 FINANCIAL INSTITUTIONS

Of the 900 banks on the FedNow real-time payments network as of midsummer, 78% are community banks and credit unions, the Federal Reserve says. That 900 figure, found in updated data released on the FedNow Web site, comes as the instant payment service marks its first year of service. It launched in July 2023 with 35 financial institutions.

Meanwhile, the number of FedNow service providers has doubled in the period, from 16 to 32. The Fed also says participating banks and credit unions range in asset size from less than $500 million to more than $3 trillion, with participants in all 50 states.

The Fed announced in 2019 it would build a real-time payments network. Reaching more than 9,000 U.S. financial institutions was one of FedNow's primary goals, especially as it sought to extend instant payments availability.

"No private-sector provider has ever achieved 100% reach," Lael Brainard, then a Federal Reserve governor, said at the time. "The Fed already has invested in connections with nearly every bank across the country. We're uniquely positioned." Brainard is now the director of the National Economic Council.

"While we're still early on the road to instant-payment ubiquity, we are working with the industry toward the ultimate goal of making instant payments available to individuals and businesses in every part of the country," said Mark Gould, chief executive payments officer at Federal Reserve Financial Services, which oversees FedNow, in a FedNow post.

Not only is connectivity vital to real-time payments, but use cases have to be in place for consumers, merchants, and financial institutions to want to use instant payments, experts say. In the same post, the Fed says use cases gaining traction include digital-wallet funding and defunding, instant payroll, bill payment, real-estate transactions, microdeposit account verification, and online-marketplace seller payouts.

In addition to adding more participants and developing use cases, FedNow executives also plan two new risk-management tools expected to become available in 2024 and 2025. Application programming interface code also will be available in 2025 to enable FedNow users to exchange information with the service.

FedNow is the second U.S. real-time payments network, following the 2017 debut of the RTP network from The Clearing House Payments Co. LLC. New York City-based TCH is owned by many of the largest U.S. banks.

—Kevin Woodward

IS PAYMENT M&A ABOUT TO PICK UP STEAM?

Payments has always been an acquisitive business, as economies of scale loom large for CEOs and CFOs and buying that scale can often look cheaper and quicker than building it over time.

But through the summer, activity in 2024 has been mapping to what was seen last year—which is to say, slow. "The number of transactions is down considerably" since the start of 2023, notes Zach Spellman, a project manager at the Omaha-based research and consulting firm TSG who tracks payments M&A.

"Just compared with 2023, this year has been pretty much on par," Spellman notes. Indeed, exactly on par. TSG tracked 38 deals through July, the same number it recorded over the same seven months last year, which ended with 72 announced deals. That was down dramatically from the numbers seen in 2022 and 2021.

But M&A is an unpredictable factor in any industry, as Spellman notes, and planners can't rule out a resurgence in dealmaking. Corporate bosses are looking to set their plans now for years to come, and may see acquisitions as a quick and efficient way to reach their numbers.

Still, no single factor stands out as a motivator behind the dealmaking Spellman has recorded this year. "I can't tell you what's driving all the M&A," Spellman says, though clearly near-term plans weigh heavily on CEOs' minds.

"At this point in time, people are trying to conclude on their yearly goals and to close by year-end and set themselves up for 2025," Spellman notes.

Recent deals in that light include an announcement from Stripe Inc. at the end of July that it has acquired Lemon Squeezy LLC, a Salt Lake City-based processor, for an undisclosed sum. Stripe knows the company intimately, as it has been processing transactions on Stripe's platform since its startup four years ago.

Shift4 Payments Inc. has been flexing its M&A muscles as well, securing in the second quarter a $250-million deal for the POS technology vendor Revel Systems. Weeks later, it paid about $38 million to acquire Vectron Systems AG, a deal that gave Shift4 a bigger presence in POS technology for restaurants in Europe.

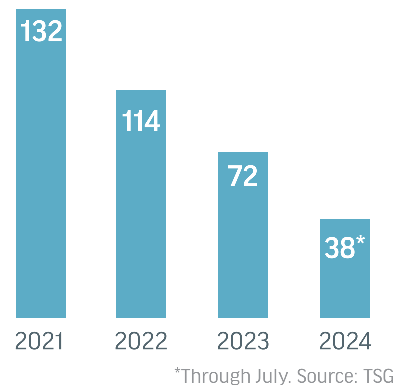
Among other recent transactions is a deal by Bharcap Partners for a majority stake in Electronic Merchant Systems Inc. and an agreement by Celero Commerce to buy SONA, a processor operating in Canada. That deal will bring Celero's total North American processing volume to $26 billion annually, the company says. Terms were not announced for either of these transactions.

The only certainty in M&A is that nobody can predict where the M&A total will end up by year's end. If a pick-up in activity is emerging, if not a return to the frenzy of 2021 and 2022, the only solid factor, Spellman says, is that "there is considerable interest [in deals] for the rest of the year."

—John Stewart

PAYMENTS M&A'S SLOWDOWN PERSISTS

(Deals announced by year)



*Through July. Source: TSG

MONTHLY MERCHANT METRIC

This is sourced from The Strawhecker Group's merchant datawarehouse of over 4M merchants in the U.S. market. The ability to understand this data is important as SMB merchants and the payments providers that serve them are key drivers of the economy.

All data is for SMB Households defined as households with **less than $5M in annual card volume.**

Date	Account Attrition %	Volume Gross Attrition %	Net Revenue Gross Attrition %
Q2'24	-22.1%	-13.9%	-18.1%

Metric Definitions: (Only use definitions related to an individual month's release)

Account Attrition % - Total attrited accounts in given period divided by total portfolio active accounts from same period of the prior year

Volume Gross Attrition % - Total volume of attrited accounts from given period of prior year divided by total portfolio volume from same period of the prior year

Net Revenue Gross Attrition % - Total net revenue of attrited accounts from given period of prior year divided by total portfolio net revenue from same period of the prior year

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PAYMENT TECH AND THE MIGRANT CRISIS

BY GIDEON SAMID
gideon@bitmint.com

THE UNITED STATES has admitted close to 20 million migrants just since 2020. Most are penniless, and receive payment cards to enjoy a dinner and a pillow. But abuse is rampant, crime is spreading, and the government is losing control.

Migrants are a global problem affecting all developed countries. Human compassion runs against law and order, and matters only get worse. Millions have escaped war zones, floods, and other natural disasters. Oppressive regimes and climate change are adding to the mix, and there is no solution in sight.

Surprisingly, modern payment technology can pitch in. Introducing the migraphone, a phone turned into both a wallet and a bank. Loaded with identity-bearing digital money, this device can be handed to the waves of incoming migrants. Each migraphone is activated through facial recognition or other biological markers, and each can be freshly loaded, weekly or even daily, with money allotted for use during the same week. It becomes useless afterwards.

Only designated merchants can receive these migraphone digital dollars and redeem them for regular dollars. This ensures that recipients will use the public's generosity for base survival, not for excessive purposes. The payment process is simple: you hold the phone close to the merchant's payment device and click "pay."

The migraphone can be used to control the distribution of migrants throughout the country, avoiding an overload on more generous communities. Each migrant will have his or her weekly allotment good for payment only in the city or county where the government wishes them to reside. When a migrant falls under suspicion of wrongdoing, his or her weekly funds will stop, replaced by a phone message to present themselves at the nearest police station to be checked out regarding that suspicion.

The government could evenly and equitably distribute the migrant population by simply shifting the eligible redeemers of the digital dollars from, say, Portland to Miami.

These would be survival dollars. Some migrants will be entrepreneurial, make something, and sell it. Migrants are largely unbanked, but the migraphone comes to the rescue once more. We have today the effective and convenient cryptography that would turn a migrant's phone into the migrant's bank.

Now we are talking about money of a different flavor. Unlike survival dollars, business dollars will last forever. Migrants working in the cash economy will go to exchange stations to pay with banknotes and receive digital dollars into their phone. We know how to keep the money in the wallet safe and secure. The business dollars can be used in any way regular dollars are used.

This is the power of "financial flavor." Survival dollars are of one flavor, and business dollars are of a different flavor. There may be more flavors as needed, allowing for society to manage its money in a most beneficial way. I have described this "flavor" issue in my critically acclaimed book, "Tethered Money." It was the one feature that attracted the People's Bank of China to buy BitMint digital-money technology (it passed a tough stress test).

The migraphone itself will be bare-minimum technology to keep costs down. Anything besides payment features will be added only if it is cheap enough. In its current design, the migraphone may be worn like a digital watch, but that remains to be worked out.

The technology for the migraphone is well-developed. BitMint digital money, as well as other digital coins, comply with the requirements. The politics of mass immigration notwithstanding, as long as millions of undocumented migrants are among us, we must use some form of documentation and behave compassionately. That is what the migraphone does. DT

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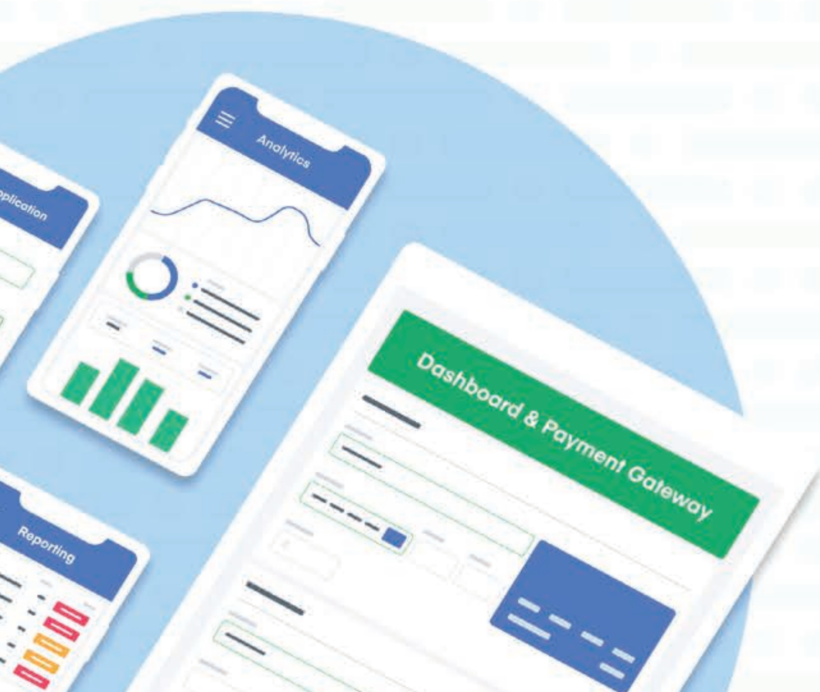

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COOL OFF AND RECONSIDER

BY BEN JACKSON
bjackson@pa.org

THE PAYMENTS INDUSTRY seems to be gearing up for more lawsuits in the wake of a recent Supreme Court decision, but cooler heads should prevail.

In June, the Court issued a decision in Loper Bright Enterprises v. Raimondo, Secretary of Commerce, that overtuned the Chevron Doctrine.

In 1984, the Court ruled in Chevron *U.S.A. Inc. v. Natural Resources Defense Council* that if a law was ambiguous with regard to a specific regulatory question, a court must defer to a regulatory agency if that agency offered a permissible construction of the statute. This tipped the scales in favor of regulators where the law wasn't clear.

The decision in Loper said the Chevron doctrine violated the Administrative Procedures Act and that any ambiguities in laws related to regulations must be decided by the courts.

There has been a lot of cheering over this decision, but much of it is premature. One Congressional representative even went so far as to claim, in a hearing with the head of the Environmental Protection Agency, that the decision meant the agency had to roll back regulations. This is not the case.

Still, many industry observers seem to think the Loper decision means companies should be more aggressive about suing regulators. Given some of the postings I have read and things I have heard, it seems the industry thinks it is about to go on a lawsuit winning streak.

But even post-Chevron, suing should not be the plan of first resort. Lawsuits are expensive and take a long time. Look at the timelines of the PayPal v. Consumer Financial Protection Bureau case, which started in 2019 and is still ongoing, and the case of Consumer Financial Protection Bureau v. Community Financial Services Association of America, which started in 2018 and was resolved only this year.

Also, the Loper decision says that, while an agency's interpretation of a law cannot bind a court, it might be "especially informative," particularly if that interpretation comes from the agency's expertise. Agencies know the laws and the industries they work with. While they may seem—and sometimes are—capricious, they are deliberative when writing rules, anticipating legal objections.

The Supreme Court said courts no longer need to pay the agency deference. It did not say courts must always rule against the regulator. Agencies, too, have smart lawyers working for them.

Consider the payday-lending rule case. The Fifth Circuit's opinion said the payday-lending rule stood on solid legal ground. It found that the Consumer Financial Protection Act gave the Bureau the power to determine whether products and services are "unfair" and "abusive," and rejected the plaintiffs' arguments that consumers can reasonably avoid harm from payday loans. The Court also rejected arguments that the Bureau acted capriciously, saying its rulemaking process was a good method for gathering information to create the rules.

When that case continued to the Supreme Court, due to the challenge to the CFPB's funding mechanism, the conservative Court found that the Bureau's funding was Constitutional.

Now, these two questions are settled: the CFPB is Constitutional, and the Bureau has no reason to listen to any requests to modify the rule.

Imagine what will happen if industry players try to litigate every regulation they find objectionable. How many rules will end up protected by precedent and managed by regulators who have the power of decision and are annoyed at having been sued?

There will be times when lawsuits are justified, even necessary. That said, companies should keep in mind that costs and potential downsides mean that lawsuits can't be the first option for every dispute. DT

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A POWERFUL TOOL TO OPTIMIZE PAYMENT PROCESSING

The increasing complexity of modern payments can be managed effectively through a relatively new entrant in the transaction chain.

BY **THAD PETERSON**

MERCHANTS HAVE TO deal with an increasingly complex payments ecosystem. Companies are looking for the flexibility to harmonize their payments processing, profit from local market conditions for better authorization rates and cost reduction, minimize operational risk (e.g., outages), and simplify acquiring relationships when possible.

Four global trends are driving this increased complexity:

- **Consumers expect fast and seamless checkout experiences regardless of device or venue.** The global usage of smart phones creates the means for consumers to make purchases wherever and whenever they choose.
- **Consumers can only pay with the payment types they have, and merchants must offer those payment types or lose the sale.** Merchants have to provide their customers with the payment alternatives they use and prefer. If they don't, customers can jump to a competitor's merchant site instantly, buying what they want in seconds.
- **Merchants working across borders must offer local currencies and comply with local regulations.** Commerce can be global, but payments are local. Acceptance of local currency is nonnegotiable, and regulatory compliance can be byzantine in many markets (like the United States).
- **Payment management is becoming strategic.** Payment expense can be a significant cost to a global merchant, and the information that payment transactions can provide about the customer and the transaction can deliver a strategic advantage if the data are in a usable format, informing every aspect of a merchant's operation from inventory management to

customer relationship management (CRM) input. Increasingly, merchants are looking to their payment operations to optimize sales and generate data about their customers at a manageable expense.

As a result of these trends, there is a business case for merchants to further optimize their payments processing by working with multiple acquirers globally. This provides critical redundancy in case of nonperformance or even the demise of an acquirer (as happened, for example, with the Wirecard scandal).

It also allows the company to deploy intelligent routing of payments to different acquirers to optimize cost and performance. The enterprise can be acquirer-agnostic and switch quickly among its acquirers. This way, it can achieve competitive pricing conditions and benefit from the best services that each acquirer can provide in a certain region or country.

In recent years, a new category of merchant-service providers called payment orchestrators has established itself to support merchants in their payments optimization journey.

PAYMENT ORCHESTRATION DEFINED

Payment orchestration is the process of efficiently managing a diverse range of payment methods, providers, and channels within a unified platform to ensure seamless payment processing for businesses. My colleague Ron van Wezel and I recently completed a report on the space, “Datos Matrix: Payment Orchestration Vendor Evaluation,” and some of what we learned is included in this article.

With a payment orchestrator, merchants have one point of contact for their payments activity, avoiding the need to work directly with multiple integrations with different payment gateways. The result is cost savings, improved payment-success rates, and a superior user experience for customers.

Payment orchestrators provide independent and acquirer-agnostic

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platforms as a service to merchants. Merchants can connect to nearly any payment service provider (PSP), acquirer/processor, fraud-management system, or other third-party software available through the orchestrator.

These orchestrators manage multiple acquirer/processors and service providers, leaving the choice of provider and contractual arrangements to the merchant. Merchants can build resiliency into their payment processing by connecting to several different acquirer/processors in one region.

This enables merchants to quickly reroute payments in case of outages, or switch payment volume between acquirer/processors based on acquirer/processor performance or transaction cost. See illustration, right.

WHAT'S THE VALUE?

The value proposition of payment orchestration is that it enables merchants to easily connect with providers of payment services, risk management, and other services without having to manage multiple integrations. Payment orchestrators go to market directly to merchants, or provide services on a white-label basis to PSPs or acquirers/acquirer processors to allow them to provide orchestration services to their clients.

The direct payment orchestration model is only economical for midsize and large enterprises (i.e., annual revenue over US$50 million). Partnerships with PSPs or acquirers typically serve the small and midsize market.

Orchestrators let merchants easily connect with a wide variety of payment acquirer/processors supporting global payment types. They also offer merchants connections to local acquirer/processors and additional service providers that can augment processing with support for fraud mitigation, analytics, and loyalty programs, among other services. Payment orchestrators are transaction-management enablers, not acquirer/processors.

Besides connecting to a merchant's acquirer/processors and other ancillary services, payment orchestrators provide core services that help merchants strategically manage their payment operations. Orchestrators offer their clients smart payment routing that can direct a transaction to an acquirer/processor most likely to accept the payment.

Smart routing services include smart payment routing to optimize payment acceptance rates by directing a transaction to the most appropriate acquirer/processor. With that capability, orchestrators provide their merchants with several tools to improve their payment-acceptance capabilities (See table, page 17).

A key benefit of the payment-orchestration model is its ability to support merchant efforts to optimize

the value of their payment capability. Beyond smart payment routing, orchestrators also assist merchants with vault storage for tokenized cards, reconciliation and reporting, fee management, management information, risk management, and security/compliance capabilities.

Peterson

> With a payment orchestrator, merchants have one point of contact for their payments activity.

WHO CAN BENEFIT?

Payment orchestration makes sense for midsize to large merchants that wish to be acquirer/processor-agnostic, optimize authorization rates, manage payment expenses, and outsource complexity. For smaller merchants with equally complex payment challenges, several PSPs offer a payment-orchestration capability through a white-label version provided by some orchestrators.

Payment orchestration isn't a good fit for every merchant. Some merchants want to work with a single acquirer/processor to simplify program management, and some organizations prefer to keep payment management in-house, in which case the orchestrator model may not be the optimal solution.

HOW IS THE SPACE EVOLVING?

Payment orchestration is still a nascent industry, but there's clearly value to many merchants to offload the overhead burden of payment management while at the same time increasing their ability to effectively manage payments for the benefit of the enterprise.

Traditional acquirer/processors remain the most efficient vehicle for moving a transaction from the moment of purchase to the provider of that payment service and back again. But providing merchants with a choice of acquirer/processors based on the situation is a strategic option worth exploring by any merchant with a complex payment situation.

The orchestration model applies intelligence to payment processing and lets a merchant optimize payments by tender type, market, transaction cost and strategic priority. For merchants with complex or cross-border operations, payment orchestration is an effective tool to efficiently manage the payment process with minimal overhead. It's clearly worthwhile to explore the value of payment orchestration for the enterprise.

As the payment-orchestration space expands, traditional acquirers, processors, and PSPs will be challenged to offer a competitive solution. At the same time, it will be increasingly difficult for payment orchestrators to differentiate their offerings from competitors. The result of these two factors is that payment acceptance will continue to be a highly dynamic, rapidly changing ecosystem for the foreseeable future. DT

Smart Routing Capability	Value for the Merchant
Dynamic Retries	Allows for a transaction retry with other acquirer/processors if the preferred acquirer/processor declines the transaction
Load Balancing	Ensures that the most efficient and high-performing providers are handling the transaction
Least-cost Routing	Routes the transaction to the acquirer/processor with the lowest transaction cost for that transaction type
A/B Testing	Allows merchants to directly compare different payment providers for specific transaction types/situations
Waterfall Routing	Maintains payment processing continuity in the event of technical issues or outages by automatically routing a transaction to a backup acquirer/processor
Geographic Optimization	Allows merchants to use local acquirer/processors to potentially reduce decline rates or lower costs
Risk-based Routing	The orchestration platform determines the best routing path to send transactions to the most relevant providers and improve authorization rates

APPLE'S BIG MOVE

The iPhone maker will finally allow developers to access the device's NFC chip and secure element. Will this trigger a payments bonanza in Cupertino?

BY **KEVIN WOODWARD**

TEN YEARS AFTER the first iPhone with an NFC chip to enable Apple Pay launched, Apple is opening access to the chip to third-party developers. Apple Pay debuted in 2014 with the iPhone 6 (the next iteration is the iPhone 16 coming this autumn), with a tightly controlled NFC chip to hold the secure element and sensitive user data.

Calls for Apple to open up access to this closely guarded data harbor were finally heard in August, when the tech giant said an upcoming version of its iPhone operating system would enable U.S. third-party developers to access the secure-element component.

Since its 2014 launch, Apple Pay, and associated Apple applications, have accessed the secure element to enable payments. The next version of the iPhone operating system, iOS 18, is expected in coming months, though as of mid-August Apple had not disclosed a timeframe for the 18.1 version.

Developers in Australia, Brazil, Canada, Japan, New Zealand, and the United Kingdom also can use the APIs with additional locations to follow, Apple says.

Opening the secure element—doing so was recently mandated in Europe—will only improve adoption of tap-to-pay on Apple devices, says Cliff Gray, senior associate at Omaha, Neb.-based TSG, an advisory firm.

"Many commercial use cases warrant direct access to the NFC chip, keeping the user in-app. Payment-app development on Android platforms has proved this model, even against the greater popularity of Apple devices in merchant environments," Gray says.

IN THE CLOUD

Access to the secure element will further boost Apple's presence in the ecosystem and among consumers, says Jonathan O'Connor, senior manager at Auriemma Research, a New York City-based advisory firm.

"For Apple," he says, "this move strengthens its ecosystem by making

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Gray: “Many commercial use cases warrant direct access to the NFC chip, keeping the user in-app.”

the iPhone even more central to users’ daily lives. It appears to be a push towards innovation, with Apple aiming to maintain a competitive edge in the mobile-technology market.”

A payoff for users may be more and better apps for the iPhone. “This move is likely to attract more developers, resulting in greater variety and better-quality apps for its users,” O’Connor says. “While Apple Pay may face increased competition, the overall adoption of contactless payments on iPhones could rise, potentially benefiting Apple Pay as the device’s trusted and integrated option.”

For its part, Apple points to in-app contactless transactions for in-store payments as a possibility, along with car keys, student IDs, closed-loop transit, home keys, hotel keys, and merchant loyalty and rewards cards as benefiting from this move. Government ID will be supported in the future, Apple says.

Android devices have long had this capability for third-party developers. But, unlike Apple’s devices, they rely on cloud technology called host card emulation.

This allows banks and other issuers to create NFC wallets without the secure element, which is controlled by the device manufacturers or mobile-network operators. Instead, payment credentials are managed in a cloud configuration controlled by the issuer.

That path has seen mixed performance, say some observers. “That’s been available for a long time,” says Steve Klebe, a retired independent payments expert who built and managed Google’s payment-service-provider partnership program. “Banks all over the world have tried to launch, and to the man, have all been shut down because they didn’t get any traction.”

LENGTHY AND EXPENSIVE

But while access to Apple’s secure element could work for third parties, there could also be many significant challenges. “It’s the online and app piece where individual payment service providers and merchants will have to do a bunch of work to integrate the buttons,” Klebe says. Whether opening the secure element will be successful or not comes down to the use cases, he says.

In the United States, Klebe says, a payments service like Paze, an online checkout platform backed by some of the nation’s largest banks, could add host card emulation and Apple secure element support and make do with a common button that some percentage of the market would be compelled to adopt and support.

Klebe refers to his own experience, however, to caution that this will likely be a lengthy and expensive project for Apple. “Having built and managed the PSP partnership programs at Google,” he says, “getting even the top 20 to do this work would be six to 18 months under the best of circumstances and probably [would require] a big bucket of cash,” Klebe says.

The true value in this move lies in the secure element’s role in verifying and authenticating an iPhone user’s identity, says Richard Crone, founder of Crone Consulting LLC.

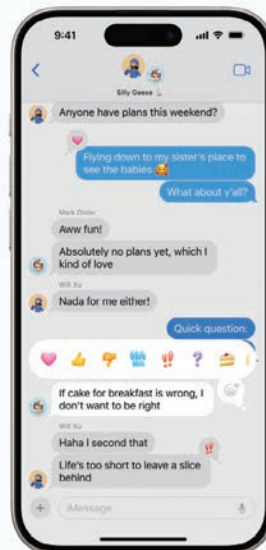
“NFC and secure element are nothing more than a dumb pipe. The payload and the value is in accessing Apple’s proprietary federated identity services,” Crone says. “The secure element is nothing more than a path that beats only to Apple’s federated identity’s door, even if they open it up to others. It works in the same way as opening up the iOS App Store to outside developers.”

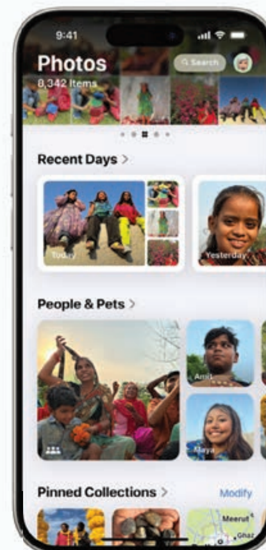
PayPal Holdings Inc., with long-time ambitions to find an in-store payment-acceptance foothold, could be a candidate for this new access, Crone says. In a well-known instance, The Home Depot Inc., in 2012, rolled out PayPal in-store acceptance at almost 2,000 stores. Retail e-commerce sales make up 15.9% of all U.S. retails sales of $1.8 trillion in the first quarter, the Census Bureau says.

“PayPal was definitely the big winner here, but not for the obvious reasons,” Crone says. “The big upside is it brings social commerce, social payments, to the in-store platform. The reason that’s so important is nearly

[85%] all purchase value is in-store." Social payments and commerce use promotions to reach individual shoppers often while they are in-store and in the aisle.

"PayPal already has Honey, which gives them access to consumer and packaged-goods advertising inventory," Crone says. "All they need to do is to be able to prove their platform generates sales." Honey, acquired by PayPal in 2019 for $4 billion, helps consumers find offers and deals on popular e-commerce sites.





For the first time, Apple is opening the iPhone's secure element and contactless technology to independent developers.

'THE REAL UPSIDE'

For PayPal, in-store transactions, also known as offline activity, are still desired. "Finally, consumers who love PayPal for online purchases are also telling merchants they want to use PayPal for their offline purchases," Alex Chriss, PayPal president and chief executive, said during an earnings conference call following Apple's acquiescence to the EU mandate.

"We continue to drive the adoption of our card products and we're making it easier to add PayPal and Venmo branded cards to Apple and Google Wallets on mobile devices," Chriss said on the call.

"We are also looking forward to launching even more ways for consumers to use PayPal any time, any place with NFC technology starting in Europe," Chriss added. "Expect to see more from us in the coming quarters to enable and incentivize our customers to use PayPal online and in person." PayPal would not comment directly on the Apple news.

When asked earlier this year during an April earnings call about European regulations forcing access to the iPhone's NFC hardware, Chriss said PayPal "must play in an omnichannel world… We want to be able to deliver a PayPal service for customers everywhere, any time, every purchase."

Chriss said where NFC is open to PayPal, "that obviously becomes a very easy opportunity for us to provide a wallet in an Android or iPhone operating system and we will be ready. If there are environments where it's not available, we will still operate in an omnichannel [environment]."

Apple will monetize access to the secure element, Crone says. Developers must sign a commercial agreement with Apple and pay applicable fees for use of the NFC capability and secure element platform.

What these fees may be is unknown. Apple assesses 15 basis points per Apple Pay transaction to card issuers, while it takes a 30% cut for apps and in-app purchases in its App store. Crone suggests secure-element access will be priced somewhere in that range.

"That's where Apple will make its money," he says. "They start with 550 million active users of Apple Pay."

Still, "the real upside," he continues, "is from the identity and all the new applications that will require biometric access and multifactor authentication identity. NFC is simply a rail, a pipeline for carrying a more valuable payload. And that payload is identity, authentication, and biometric validation." DT

Crone

Crone: Pricing for secure-element access is "where Apple will make its money."

The Prairie State's National Challenge

What happens in Illinois won't stay in Illinois, whose new law exempting merchants from card interchange on sales tax and tips poses a whole host of technical and operational questions for processors nationwide.

BY PETER LUCAS

Bills that would exempt merchants from paying interchange on sales tax for credit card purchases have been bouncing around statehouses for years, while getting nowhere. But that losing streak came to an end in June when Illinois became the first state in the union to pass such a law.

The law, known as the Interchange Fee Prohibition Act, exempts merchants in the state from paying interchange on sales tax and gratuities linked to credit and debit card transactions. In exchange, the state will cap what merchants earn for collecting sales tax at $1,000 per month.

Prior to passage of the law, which goes into effect July 1, 2025, Illinois merchants were allowed to keep 1.75% of the sales tax collected per month as compensation for acting as agents of the state. The deal was reportedly one of the most generous sales-tax discount programs in the country for local merchants.

The bill was crafted as a compromise to enable merchants to recover lost revenues from that cap on what the state pays merchants to collect sales tax. For Illinois, capping what it pays merchants to collect sales tax, allows the state to effectively increase sales-tax revenues without a sales-tax increase.

Illinois legislators viewed the interchange exemption as an attractive proposal that would win merchant support for the bill, according to payments experts. Merchants across the country have been battling Visa Inc. and Mastercard Inc. for years over interchange rates, with the argument growing especially heated in recent years.

The cause of the acrimony isn't hard to perceive. U.S. merchants paid more than $100 billion in interchange fees in 2023, according to the Merchants Payments Coalition, which lobbies on behalf of merchants on interchange and related matters.

But banks and the card networks aren't backing down, and, while passage of the Illinois law was hailed nationwide by supporters as a win for Illinois merchants, the victory may turn out to be short-lived. As expected, several organizations representing banks and credit unions in August fired a salvo of their own challenging the new law.

Brought by the Illinois Bankers Association, the American Bankers Association, the Illinois Credit Union League, and America's Credit Unions (formerly the National Association of Federally-Insured Credit Unions), the lawsuit was filed in the United States District Court for the Northern District of Illinois.

Such is the vital importance of interchange to card-issuing economics that rumblings to the effect that groups representing financial institutions and the payments industry would challenge the law in court began almost immediately after it was passed.

In the complaint, the plaintiffs allege that if the law is allowed to take effect it "would not only throw well-operating payment card systems into chaos, it would also undermine the significant benefits, safety, and security that payment card systems provide to all participants."

The complaint also alleges that the law "usurps" the federal government's regulatory authority over federally chartered financial institutions and runs counter to "multiple provisions" of federal and state laws that ensure a level playing field for financial institutions so that they are not treated "in a discriminatory manner."

"Our membership collectively believes the law takes the wrong direction," says Ben Jackson executive vice president of government relations for the Illinois Bankers Association. "Our members have given us a clear directive to overturn the law through legislative and other measures. The complaint, which speaks for itself, is one of those other measures."

Rob Karr, president and chief executive of the Illinois Retail Merchants Association, which lobbied on behalf of the Interchange Fee Prohibition Act, said the lawsuit was expected.

"It's no surprise credit card companies would do all they can to undermine this law and maintain their ability to unilaterally impose exorbitant processing fees on workers' tips and taxes on consumer purchases," Karr says.

Systemwide Upgrades

The driving force behind the legal challenge is that it creates a slew of issues with which card networks, processors, and software vendors must grapple, making it unlikely they will be able to implement the necessary technical changes in time to meet the law's start date.

The most immediate problem is how processors will isolate sales tax and gratuities and securely exchange that data with merchants. As things have stood for years, merchants pay interchange on the transaction total, which includes sales tax and tips.

That means the message formats used by the card networks and processors do not pass this information as part of the transaction.

Breaking out sales tax and gratuities will require systemwide upgrades at the network and processor level, payments experts say. It's also expected that software vendors will have to modify existing programs to calculate and break out such data from the total transaction amount.

On top of that, if a merchant's point-of-sale terminal can't accommodate the apps needed to comply with the new law, that seller will have to buy a new one unless it wants to manually provide the necessary documentation to the processor, experts say.

In the latter case, the law contains a provision that allows merchants to manually submit data within 180 days from the time of the transaction. Card issuers are required to refund to the merchant the total interchange paid on sales tax and gratuities.

Indeed, the technical challenge posed by the Illinois law flummoxes at least some payments-technology providers and experts who could face operating under one set of rules for 49 states and another set for Illinois.

"Currently, the payments ecosystem is not set up to handle the flow of sales tax and gratuity data from end to end for a transaction, and the technology to do it doesn't exist, which means the true cost of implementation [is unknown]," argues John Romer, managing director for Prescentus LLC, a Nashville, Tenn.-based technology firm and regulatory consultancy to fintechs.

"If you don't have sales tax and gratuity data flowing end-to-end, interchange can't be calculated on the core transaction amount when the transaction is processed," he adds.

In addition to the technology challenges, the deadline for compliance many observers consider the compliance deadline too short for such a complex undertaking.

"For simple updates, you can expect a 12-month timeline for implementation. For tech changes, 12 to 36 months, and that can stretch out years longer with deadline extensions," Romer says. "Look at how long it took to roll out chip readers. There are still gas stations not compliant after years of deadline extensions."

To date, the Electronic Transactions Association, whose membership includes payment processors, says it knows of no processor that is in a position to comply with the Illinois law.

"Legislation can pass easily, but that doesn't mean anyone did a deep dive on what it would to make the change," Romer adds.

'A Herculean Task'

As if clearing those hurdles weren't challenging enough, concerns are also growing that the law has opened a new front in merchants' decades-

Talbott: "There are also a lot of … questions around the law, such as how will chargebacks and returns be handled, that need to be addressed."

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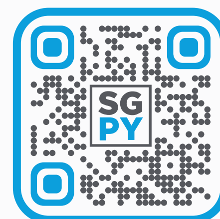

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old battle over interchange by providing to other states a blueprint for similar legislation.

Indeed, several states have unsuccessfully introduced legislation exempting sales tax from interchange on credit card purchases as a way to avoid penalizing merchants with fees for collecting sales tax.

Pennsylvania was the latest state to introduce such legislation. The bill stalled this year in the state's House of Representatives before the legislature adjourned for its summer recess. It appears unlikely the bill will to come up for a vote when the legislature reconvenes for its fall session in September, says Scott Talbott, executive president for the ETA, which lobbied against the bill.

The Pennsylvania bill may be stalled, but Talbott expects more states to introduce similar legislation. Prior to Pennsylvania, Florida and Texas weighed similar proposals in the past year, and Georgia last year introduced like legislation. About a dozen other states are reportedly considering similar bills, according to payments experts.

"The complexity of separating out sales tax alone creates an immeasurable hurdle, but many states tax different products, such as alcohol and tobacco, at different rates from staples such a food and gas, which create even more hurdles for implementation," says Talbott. "Implementing this would be a Herculean task."

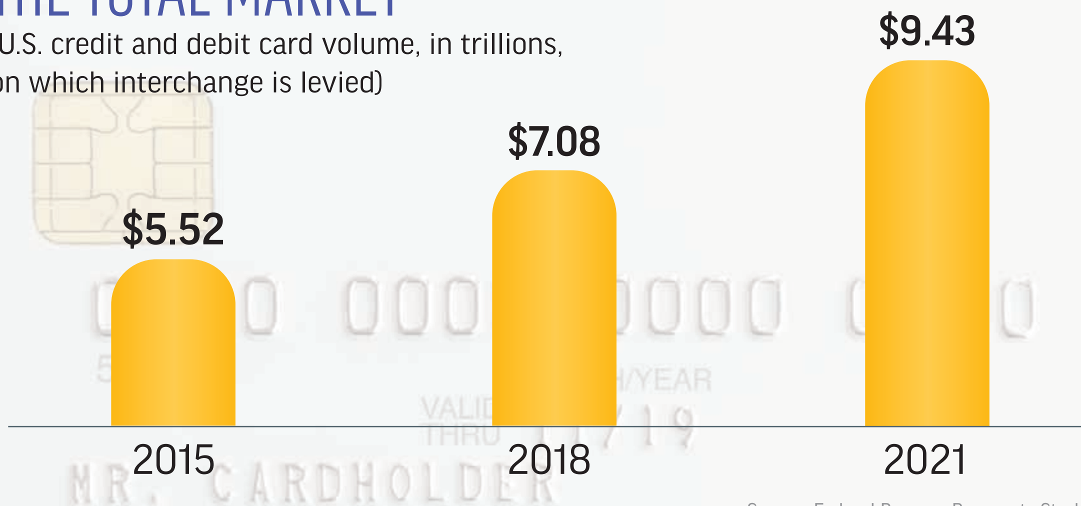
If more states do introduce similar legislation, that would significantly widen merchants' long war on interchange, a war that has extended to the national level.

In the latest battle, merchants are actively campaigning to enact the Credit Card Competition Act, a bill in the U.S. Congress that if passed would require financial institutions with $100 billion or more in assets to enable at least one network other than Visa or Mastercard for credit card processing.

In addition to facing legislative challenges to interchange fees, the card networks in June were dealt a blow in the courts when Margo K. Brodie, U.S. District Court Judge for the Eastern District of New York, nullified a proposed settlement of merchants' years-old litigation with Visa and Mastercard over interchange costs. Brodie's decision is expected to send the case to trial.

'Unintended Consequences'

Despite claims the Illinois law would throw a massive monkey wrench into the payments ecosystem, merchants argue that processors can meet the compliance deadline. One reason is that sales tax is separated on purchases made with business-to-business cards, says Karr of the Illinois Retail Merchants Association.



Pritzker: Said to be willing to revisit the Interchange Fee Prohibition Act in November.

"Scrutiny is going to fall on processors to make this happen as they are already doing it [for business transactions]," Karr says.

While it is true that processors can separate out sales tax for business transactions, that volume is modest compared to consumer payment card volume, points out the ETA's Talbott.

"It's difficult to extrapolate from a handful of [business] transactions to the broader consumer market," Talbott says. "There are also a lot of other questions around the law, such as how will chargebacks and returns be handled, that need to be addressed."

Indeed, the law would introduce a dizzying array of complexities, some experts contend. In a June article in the National Law Review, Howard Herndon, senior counsel for Womble Bond Dickinson LLP and managing director for Prescentus, a subsidiary of that firm, says:

"As written, [the Illinois Interchange Prohibition Act] does not provide for the complexity of the implementation, the administration of the manual refund process, the protection against refund fraud, and the overall need to initiate such a process in a top-down process to ensure standards are updated, processes are outlined, and testing and certification processes are in place."

Another gray area in the law is that a so-called entity, such as a processor, payments network, or financial institution, would be prohibited from using card-transaction data for any purpose other than processing the transaction. It is not uncommon for processors and other entities to use anonymized, aggregated card-transaction data for benchmarking, research, or other commercial purposes, but in Illinois, doing so would be a violation of the law, according to Herndon.

"Illinois legislators may not have intended the law to read this way, but that's the way it does," says Herndon. "There are potential unintended consequences in this law that lawmakers didn't necessarily see."

One way to clarify the gray areas would be to bring lawmakers and payments-industry stakeholders together to address perceived difficulties in the law and run a cost-benefit analysis, Herndon adds.

"This is a law challenged by the realities of an existing system, and it will require all parties to work together to ensure proper implementation," he says.

'A Layer of Complexity'

With the Interchange Prohibition Fee Act now facing a challenge in court, the chance of the two sides coming together with legislators to address their concerns appears unlikely. This is despite Illinois Governor J.B. Pritzker's stated willingness to revisit the law, if need be, after the state legislature reconvenes in November, according to payments experts.

Until the lawsuit is resolved, or the Illinois legislature amends the law, the payments industry well beyond that state will have to live with the measure's potential complexities and drawbacks.

"The idea, in theory, is great, but I doubt it will deliver the desired results," says Michael Seaman, cofounder and chief executive for Swipesum, a Clinton, Missouri-based processor.

"I can confidently say," he adds, "that the implementation is going to be challenging…[as] this unique stance by Illinois will create compatibility issues with global payment systems and add another layer of complexity." DT

WHERE THE CCCA GOES WRONG

The bill may look sensible on the surface. But it's a mistake to try conjuring up competition by diktat.

BY **ERIC GROVER**

SINCE HIS UNSUCCESSFUL efforts in 2008 and 2009 to impose price controls on merchants' card-acceptance costs, longtime payments-industry nemesis Sen. Ricard Durbin, D-Ill., has been on a crusade to gut the fees charged by card issuers and networks.

As part of the 2010 Dodd-Frank Act, Durbin's eponymous Durbin Amendment imposed punitive price controls on debit-interchange fees for politically unsympathetic issuers with over $10 billion in assets. His legislation also mandated that merchants have a routing choice between at least two unaffiliated debit networks.

Now, the Credit Card Competition Act ("Acquirers And the CCCA," January) is Durbin's latest salvo. Originally floated in Congress in 2022, it would require that issuers with over $100 billion in assets enable at least two networks on each credit card. Merchants would then choose which network to use.

The credit card market is more concentrated than debit, so Durbin's bill could capture the lion's share of the market with just the truly politically unsympathetic largest banks. The top 10 issuers with greater than $100 billion in assets accounted for 80% of U.S. general-purpose credit-card transactions in 2023.

The CCCA's supporters hope it will eviscerate credit interchange and network fees, and that, in addition to American Express, Discover, Mastercard, and Visa, more networks will jump into the credit-routing fray.

POWERFUL IMPACT

In reality, the CCCA is almost a bill of attainder, targeted at America's leading payment networks, Mastercard and Visa, albeit without naming them. Under the bill's rules, issuers' two network choices could not be Mastercard and Visa. American Express and Discover are the most obvious general-purpose credit-network alternatives.

In the Senate, Durbin's CCCA has bipartisan co-sponsors, including

Republicans Josh Hawley, J.D. Vance, and Roger Marshall, and Democrats Peter Welch and Jack Reed. There's a companion bill in the House introduced by Republican Lance Gooden and co-sponsored by Republicans Thomas Tiffany, Jefferson Van Drew, Max Miller, and Bob Good, and Democrats Zoe Lofgren, Gregorio Kilili Camacho Sablan, James McGovern, and Chellie Pingree.

Senator Durbin is a crafty operator, resolute in his objective of gutting the economics of card issuers and networks, but flexible and opportunistic in his tactics. Unlike the Durbin Amendment, the CCCA can't be pilloried as price controls. Instead, it would change the bases of competition in an effort to commoditize America's credit networks.

It would have an immediate and powerful impact on credit card network competition. American Express, Discover, Mastercard, and Visa have national acceptance at the physical point of sale and online. Consequently, out of the gate, merchants would have a real routing choice between two networks for every covered transaction in-person and online.

But CCCA supporters may be disappointed by issuers' ability to defend interchange. Targeted giant credit card issuing titans like American Express, BofA, Capital One, Chase, Citi, Discover, and U.S. Bank would have some ability to protect their interchange revenue. As long as they had more than two credit networks to choose between, they could drop any network that competed by cutting interchange fees.

The CCCA, however, would assuredly destroy variable credit network acquirer-licensing and processing fees. Merchants wouldn't lose sales by routing over the low-cost credit-network choice. And only the lowest-cost credit network selected by the merchant, or the merchant processor, would earn issuer transaction fees.

Gargantuan merchants like Amazon and Walmart would reap every cent saved by routing over lower-cost credit networks. However, merchant processors would control credit-transaction routing for almost all small and medium-size merchants, and pocket most of the savings.

The more crowded and competitive the credit-network market, the easier it would be for issuers to safeguard interchange. But the more certain it would be that acquirer-network fees paid by merchants would be crushed.

MEET THE NETWORKS

Would additional payment networks jump into the credit-routing market?

FIS's debit networks, NYCE and Jeanie, and those of Fiserv, Star and Accel, are tailormade to compete in the kind of credit-network market Durbin wants to create. Rather than investing in these brands, the parent companies have let them atrophy. Instead of developing differentiated services enabling issuers and merchants to generate incremental business, they compete on switch fees—a commodity business model.

While the credit networks provide a range of risk-management services such as 3D-Secure, address verification, and stand-in authorizations, there's robust risk management on both sides of the network. Issuers, merchant acquirers, processors, and merchants employ their own and third-party systems to manage fraud.

To be sure, FIS and Fiserv would have to invest to beef up their networks' risk management, but

for most transactions, they'd be entirely adequate. But FIS's and Fiserv's debit networks have much weaker acceptance than the four major branded U.S. general-purpose credit networks. Mastercard and Visa each have more than 18 million merchant-acceptance locations in the U.S.

By contrast, FIS reports that more than 2 million merchant-acceptance locations accept NYCE. Fiserv refuses to disclose Star's and Accel's acceptance, which means it's paltry compared with America's two largest networks.

These networks would have to address their massive acceptance deficit. Fiserv could expand a credit network's acceptance through its massive merchant-acquiring business, acquiring joint ventures, and third-party acquirers. FIS could increase a credit network's acceptance through recently divested Worldpay and other third-party acquiring businesses.

But, no matter how vigorous their efforts to expand acceptance, they'd still suffer a huge acceptance gap for many years.

There'd be potential synergies with the issuer- and merchant-processing businesses. A system that sees cardholder and transaction data from end to end enables better risk management, and, more tantalizingly, intelligent real-time promotional campaigns to generate incremental spend, which is the holy grail for issuers and merchants.

For FIS and Fiserv, a credit-network business would be incremental. Marginal processing costs for Star, Accel, NYCE, and Jeanie, like those of Visa, Mastercard, AmEx, and Discover, are close to zero. Nonetheless, challenger and incumbent credit networks wouldn't make much, if any, transaction fees from merchants.

Acceptance-side credit-network licensing and processing fees would plunge, perhaps to zero, or even go negative, meaning that networks would pay merchants for the right to earn issuer transaction fees. Credit networks would have to rely on switch fees paid by issuers.

IT'S ALL ABOUT PROFITS

New credit networks would have to set interchange fees at the prevailing rate. If they tried to compete with lower interchange, issuers would drop them. If they tried to entice issuers with higher interchange, merchants wouldn't route over them.

Foreign credit networks, such as China UnionPay and Japan's JCB, could use the CCCA as an opportunity to develop relationships with giant U.S. credit card issuers and to expand U.S. acceptance. CUP, however, might hesitate to raise its head in the U.S. market. Without naming it, the CCCA invites the Fed to declare CUP a threat to national security.

For FIS and Fiserv, any credit-network business would be incremental. Whether new credit networks could make enough from issuing behemoths like BofA, Chase, Citi, and Capital One, to make it worth their while, however, is an open question.

The CCCA aims to commoditize credit-network routing. But potential profits, not commodity markets, attract capital and new enterprises. Markets engineered to prevent profits will deter, rather than attract, capital. It's not clear that FIS's and Fiserv's shareholders would be well-served through efforts by those companies to compete in a commoditized credit-network routing market.

The U.S. credit network market is fiercely competitive. More competition is always welcome. The bases of competition, however, don't need prescriptive micromanagement from Washington mandarins. DT

Grover

Grover: "The CCCA is almost a bill of attainder, targeted at America's leading payment networks, Mastercard and Visa, albeit without naming them."

Why payments are crucial for banking.

endpoint

ARE YOU IN CONTROL?

If you control the payment, you control the loan, the deposit, and the entire customer relationship.

BY **MATT MOORE**

Matt Moore is president at BankMax–Celero Commerce

I'VE ECHOED THESE same words you see in the headline to bank partners for over a decade, but never has this sentiment been more poignant than in today's dynamic banking market.

You see, for too long, payments have been relegated by most banks to a secondary offering, often living in the bowels of the bank's basement or tucked away in treasury as an outsourced offering. Frankly, the early evolution of the payments landscape caused such posturing. Electronic payments and deposits were minuscule compared to checks and cash. And as the interchange schedule ballooned and terminals became small computers, most banks lacked the expertise—and, perhaps worse, interest—in maintaining a direct presence in this industry.

Out on the road, presenting to partners and prospects, I often ask colleagues how they define their role as a banker. It's a bit of an open-ended question that has yielded some interesting answers over the years. I'll spare you the funny responses and cut straight to the chase.

Your customers believe that your role as a banker is to provide them the products, services, and expertise they need in order to better serve their business. You see, it's not about you, it's about them. Having that servant sales mentality allows you to provide the capital a bank executive needs, say as a loan officer, to grow the bank's business. You could also be guiding the bank through the right point-of-sale, in merchant processing, to allow it to collect receivables while also managing employees, inventory, and marketing.

TAKE THE GLOVES OFF

I'd like to stop and ask an old-fashioned question. Why do people rob banks? The answer is pretty simple. It's where the money is. So why should your bank be involved in payments? Same answer.

Makes sense, right? So why are so many banks still not offering payments as a core product?

I don't have all the answers, but I can tell you that your competitors are following the money. Take Square, for example. This is the 16-year-old startup that aimed to revolutionize the payments business through a facilitator model that sidestepped the traditional, cumbersome onboarding process and allowed Sally's Sewing Shop to accept payments in minutes.

Instead of having to purchase desktop terminals, Square was revolutionary in turning ordinary smart phones and tablets into double-duty points of sale. And to keep it simple, stupid, its flat-rate pricing model,

albeit expensive, attracted a slew of business customers who were tired of reconciling the insanity of issuing interchange on monthly statements.

But Square is only in this business for itself. Unlike the case with traditional acquirers, banks cannot partner with Square to resell its services. That's where the gloves need to come off.

Keep in mind that Square did not simply stop with just facilitating payments. Halfway through its lifespan it opted to offer small-business loans to clients. Think about it this way: That little white square terminal was the financial window into the client relationship.

Knowing the business's cash flow and having historical sales activity on hand, Square had the necessary tools to advance customers the cash they needed to grow their business, again side-stepping many of the lengthy and tiresome processes of traditional lending.

CONTROL THE PAYMENT

With its expertise in payments and banking, Square's entry into the lending business—and that of other acquirers—was always a direct threat to banking's biggest cash cow: lending. Trust me, making our bank partners, especially their lending teams, aware of this practice helped our client banks drive some of their largest organic growth in fee income. That's because cross-selling the banks' payments products closed the financial window down for competitors.

But that's not all. As if lending against you wasn't already enough of a concern, Square was successful in setting up a Utah-based, FDIC-insured bank in March 2020. During its first six months of operation, over $1 billion dollars that should have been sent to banks remained easily and simply within Square Bank—with customers earning a high interest rate to leave it there.

That model is now being followed by fintechs like Intuit and many others. And, given the high interest rates we all face in today's market, these fintechs are paying high returns to incentivize customers to ditch their traditional bank entirely.

I can't help but finish this piece the same way I started it. Simply put, if you control the payment, you control the loan, the deposit, and the entire customer relationship. Be mindful that your competition has changed. Fintechs and acquirers are now banks, leading their deposit, lending, and fee-income push through the payment vehicle.

For bankers, it's time to follow suit—but better yet, beat them at their own game. As we saw with the success of community banking and the Payroll Protection Program, automation and technology still get crushed by human relationships.

That's where you come in. Building a localized, strong payments product with the right mix of technology, transparency, and high-touch service will position your bank to dominate the payments landscape, thereby leading you to more fee-income, deposit, and loan opportunities. DT

> For too long, payments have been relegated by most banks to a secondary offering.

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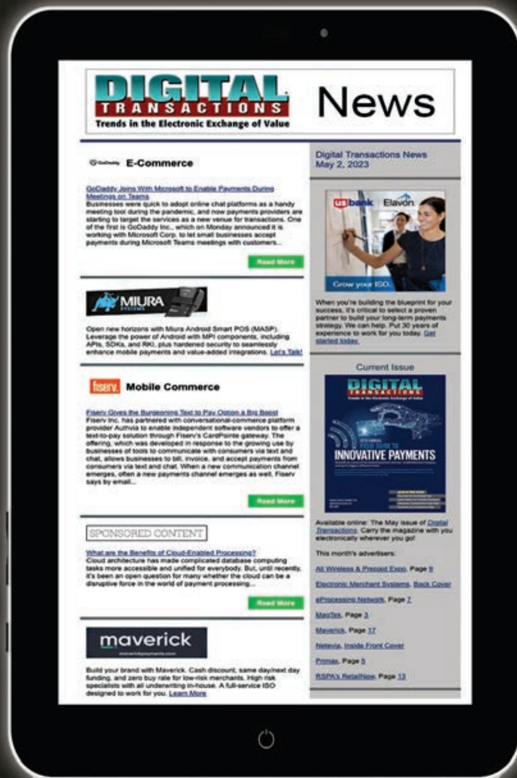

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GoDaddy Joins With Microsoft to Enable Payments During Meetings on Teams
Businesses were quick to adopt online chat platforms as a handy meeting tool during the pandemic, and now payments providers are starting to target the services as a new venue for transactions. One of the first is GoDaddy Inc., which on Monday announced it is working with Microsoft Corp. to let small businesses accept payments during Microsoft Teams meetings with customers...

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fiserv. Mobile Commerce

Fiserv Gives the Burgeoning Text to Pay Option a Big Boost
Fiserv Inc. has partnered with conversational-commerce platform provider Authvia to enable independent software vendors to offer a text-to-pay solution through Fiserv's CardPointe gateway. The offering, which was developed in response to the growing use by businesses of tools to communicate with consumers via text and chat, allows businesses to bill, invoice, and accept payments from consumers via text and chat. When a new communication channel emerges, often a new payments channel emerges as well, Fiserv says by email...

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